

EXHIBIT B





STAVATTI APPROACH

BUSINESS MODEL

Stavatti's Business Model is conceptually similar to that of other major aerospace corporations with the exception of basic leadership and operating tenants. Stavatti generates revenues and net shareholder earnings through the design and production of major fixed wing aircraft and aerospace vehicles, like Lockheed Martin and Boeing. Stavatti is owned by shareholders who elect a board of directors who in turn appoint executive officers to manage the daily business affairs of the corporation, like Lockheed Martin and Boeing. Unlike Lockheed Martin and Boeing, Stavatti is a privately held corporation that develops the majority of new aerospace defense products as privately financed, corporate initiatives.

A fundamental difference separating the Stavatti business model from that of all other domestic aerospace defense prime contractors is the Stavatti focus upon Selling What We Make rather than Making What We Sell. The majority of domestic military aircraft manufactures are not responsible for the conception, requirements specification, design, development and testing of new aircraft types. The government user agency, be it the Air Force, Navy or Marine Corps, which issued the contract is. Domestic government user agencies are responsible not only for providing the congressional funding for new weapon system development, but for total program origination and management with the SPO serving as a principal element in program administration.

Contractors compete for the opportunity to participate in the user agency program and serve as designated end manufacturer of a new weapon system. Contractors win contracts based upon their ability to satisfactorily convince the government user agency that they can produce a product whose design aspects are yet to be specified to satisfy not yet thoroughly assessed system requirements within a specific time-frame at a specific total procurement cost. Contractors "sell" the government on their ability to make a new weapon system and then are responsible for actually making that which they just sold. Occasionally this practice, known as a Total System Contract, works. Often it does not, and the resulting air weapon system comes in at a significantly greater cost than originally envisioned and long overdue, not to mention overweight, underpowered and generally far less capable than originally specified. The A-12, F/A-22 and F/A-35 JSF programs are excellent examples of the shortcomings associated with Making What We Sell. **Making What We Sell** has been the standard aerospace industry practice for a number of decades and in the case of the aerospace industry, has been the only method by which relatively new weapon systems can receive development dollars.

The practice of aircraft manufacturers serving to satisfy total system military contracts rather than develop products at corporate expense and attempt to commercially market those products can be traced to the late 1920s during the transition from wood to all metal aircraft whereby “normally, the cost of producing a prototype were met by the manufacturer. In the era of the wood, wire and fabric biplane, this system did not usually impose a great strain on company resources. However, with the advanced technology involving the widespread use of metal in airframes, not all companies could sustain the investment necessary for such a gamble.”

– Robert J. Serling **Legend and Legacy**.

The use of metal, and advanced composites, however, has become an extraordinarily well defined science and is currently far more cost effective than creating hand-build wooden aircraft. Furthermore, unlike the shareholders responsible for backing major aircraft makers of the 1920s, ‘30s and ‘40’s, today’s investor understands complex technology, manufacturing, the value of investing in long-term, strategic enterprises and of course, free enterprise. Today, advancements in computer aided design and modeling, as well as extremely accurate numerical simulation techniques, enable the development of modern aircraft, even those destined for sustained hypersonic cruise, with far less risk than ever before. Combined with sophisticated wind tunnel testing and a far greater understanding of aeronautical design methods, building a modern aircraft is a far less challenging endeavor than it was fifty years ago when the practice of government funding for the total RDT&E program was instated.

By **Selling What We Make** Stavatti retains complete control of all new aircraft programs, from conception to mass production. Prior to quoting a unit flyaway price to a customer, Stavatti has already developed, flight tested and qualified the product. Responsible for the conception of a product to address anticipated air defense needs, Stavatti is able to develop a product to meet or exceed real requirements on time and within budget. Employing the basic tenants of capitalism and free enterprise, **Selling What We Make** allows Stavatti to remove the government from the creation of new aircraft. Instead, governments, both domestic and worldwide, are responsible only for the procurement of new aircraft. In so doing, governments can afford to purchase far more aircraft than they could before when they were responsible for entire development as well as production costs.

Although the concept of Selling What We Make may appear radical and unnecessary in an industry where the customer is willing to pay for development, it must be realized that the rules have changed. The government is no longer able to pay for new weapon development.

Major Prime Contractors are struggling with this fact and are gradually realizing that development contract money for entirely new weapon systems is simply not there and they must change their business model. Interestingly enough, from a historical standpoint, application of a commercial approach to aerospace defense is not new. Throughout the history of military aircraft, numerous successful aircraft programs were started as corporate initiatives, rather than contract initiatives. Focusing upon one specific example, it is best to quote a renowned source, USAF General Curtis E. LeMay, as so stated in **Mission with LeMay**, Pages 475-476:

“It would be well to emphasize how much the American people owe to American Industry-how much the airplane manufacturers have actually contributed to our air power. Take the KC-135 for example. It has been around for quite a while now, and we are still (1965) depending on the KC135s for much of our refueling. We have the Boeing Company to thank for this...

We had a requirement for a jet tanker. We’d been using the KC-97’s, but what we needed was a jet tanker to match the B-47 and the B-52. And there was always a shortage of money. We could never cram this oh-so-necessary tanker into the budget.

The Boeing Company understood our need. More than that, they saw our future need for a jet transport. So, completely on speculation, and employing their knowledge they had gained in the B-47 and B-52 projects, they built a jet transport. This was the father of the KC-135. We bought it as a tanker, making only a few basic changes. This was a calculated risk taken by the industrialists, and a wonderful example of free enterprise.

Normally, it would have been the other way around. We would state our needs to the aircraft industry. The various companies would compete, each with its own design. We would then evaluate the designs from every angle-both a technical evaluation and

an operational evaluation—to decide whether it was a good tool for the user. And we would evaluate the company, judging their capability to produce what was needed.

Then, and only then, would a development contract be let from the Air Force to the company, to develop that airplane. Once it was developed and tested, and it looked like it was going to be a success, we could offer them a production contract. Almost every modern airplane was built according to that pattern. Quite frequently—perhaps even usually—a commercial version followed. The whole Story of the Boeing 707 was a reversal of manufacturing and procurement history. We bought it for a tanker. Thus, leaning on Boeing's initiative, we were ahead of the game."

Realizing the additional success that Northrop's Tom V. Jones had in the marketing the F-5 Freedom Fighter worldwide, and that of Dassault in marketing their MIRAGE series, the benefits received by aerospace defense prime contractors who serve the market in a commercial fashion is readily apparent. Drawing from the pioneering techniques, the likes of which created the P-51, B-17, X-1, F-4, U-2 and F-117 alike, the Stavatti approach combines a war-effort, surge production mentality with a dedication to commercial practices to deliver significant achievements to the aerospace industry.

Stavatti's implementation of this model results in an organization which does not perpetuate the traditional military-industrial complex. Rather, the Stavatti approach serves as a benchmark for streamlined acquisition/DoD Acquisition Reform.

CORE VALUES

Stavatti maintains a moral duty to practice capitalism and emphasize a free market, competition driven, quality oriented business environment. Stavatti has a responsibility to its incorporators, shareholders and beneficiaries to produce substantial returns on their holdings, both equity and otherwise. Stavatti is dedicated to the production of products which will enhance, if not enable, the survival of its customers.

As a defense articles producer, Stavatti provides systems which are largely responsible for the defensive and offensive capability of nation customers. Stavatti is committed to providing systems which will effectively defend the customer from threats foreign and domestic with the highest degree of capability, quality and affordability over initial procurement and total operational lifetime.

Directed by a tight-knit group of industrialists who can pursue programs based upon sheer will and determination, rather than by government decree or quarterly driven stock reports, Stavatti's core principles rest in the ability to produce innovative products, and as a result, generate vast revenues. With those revenues, Stavatti will reinvest in the company and further technology, while guaranteeing a comfortable and rewarding work environment. To uphold the principles of Stavatti are ten core values which set the Stavatti standard:

- Customer Survival
- Corporate Focus
- High-Risk, Commercial Programs
- Employee Achievement and Success
- Revenue Creation
- Absolute Quality and Safety
- Leadership with Strategic Vision
- Individual Ability
- Continuous Learning, Improvement and Innovation
- Responsibility and Patriotism

A LEARNING ORGANIZATION

Stavatti has become a "Learning Organization" which is "Specifically designed to mine its intellectual and artistic capital." Implementing an organizational approach patterned after the Human-Organic rather than Newtonian-Mechanical model, the intelligence of the Stavatti organization exhibits dynamic human traits including:

- Detection of problems before they arise.
- Problems are solved before leadership is aware that the potential for problems exists.
- Consistency of purpose and continuous improvement.

This unique Learning Organization model is implemented by Stavatti under the guidance of Stuart E. Cart to result in an entity which not only survive the future business environment, but breaks the traditional lifecycle pattern of an organization which consists of infancy-growth-development-maturity-fade out. Instead, the Learning Organization concentrates upon benefiting from an environment in which people are passionate and enthusiastic about their work, exhibiting key attributes such as learning, integrity and contribution. Stavatti strives to function as a well operating, highly effective organization which is complete, balanced and synchronized wherein the traits associated with the infancy-growth and development lifecycle stages are perpetually present. A Power Point presentation focused upon the Learning Organization by Stuart E. Cart is available for download.

Specific business operations are conducted through a system of seven (7) integrated operations-management departments. Consisting of Engineering-Research-Development, Production, Sales and Marketing, Administration, Executive Management, Enterprise Intelligence and Foreign Technology at the core of the business operation is a creative, benevolent genius responsible for performing both an operational and management role within each department. This system is largely similar to that of highly successful organizations such as the original Lockheed Skunk Works wherein "Kelly" Johnson served as the "Benevolent Genius" at the core of business operations. An integrated management approach in which executive leadership is responsible for a myriad of tactical as well as strategic decisions, management serves as a fundamental component of not only administrative operations, but engineering, production and sales.

The significant participation of management in operational affairs is apparent in the Stavatti product development process wherein the President and CEO is not only the Chief Engineer, but the Chief Salesman, Chief Administrator and Chief of Production Processes. Similarly, all of executive management participates directly in the daily affairs of the corporation.

Executive management plays an extremely active role at Stavatti. Whenever possible, the management is directly responsible for conducting the operational business of the company, thereby eliminating the need for middle management. The President/CEO, COO and Vice Presidents of Stavatti work directly with engineering, assembly, sales and administrative personnel. Herein, executive management is not insulated from either employees or customers.

Stavatti employs a limited number of high caliber individuals who are granted significant responsibilities. When assigned ample work-loads, individual employee achievement typically exceeds the expectation of management. Rather than provide a large number of employees with extremely limited tasks, Stavatti ensures that a small group of qualified persons is responsible for all operations. In so doing, the company achieves greater overall communication, productivity, reduced costs and employees with a sense of individuality and achievement. Working directly with executive management, employees are largely responsible for self management and self achievement. The virtual elimination of middle management ensures that employees manage themselves and in so doing, results in a workforce that emanates appreciation, respect and responsibility.

Insisting that all employees are aware of current programs and how they are a component of the success of those programs is essential. Employee wages and salaries are directly dependent upon the success of the corporation. Corporate success is simply defined as the sale of product sufficient to break-even and derive a profit. If the corporation is unable to generate revenue, everyone associated with the company loses. Likewise, if the company succeeds and is profitable, all Stavatti employees benefit

through extremely competitive salaries and bonuses. Stavatti emphasizes the practice that a cohesive team working intimately together with a distinct goal will succeed. Goals can never be achieved without individuality, however. Stavatti is not about one common group mentality marching to the same beat. Rather, corporate success is achieved through well paid individuals who apply their individual ability to produce good airplanes.

This integrated operations-management system allows Stavatti to continue to function as a streamlined, focused entity during periods of anticipated growth. The goal of Stavatti is to exponentially grow in revenue without significantly increasing overhead. It is critical, however, to realize the staffing requirements necessary to operate a billion dollar business to insure that adequate profits are attained. That realization has been performed. Through the integrated organization system, as detailed, Stavatti Aerospace will be able to function competitively with a total of 5,000 to 25,000 projected employees rather than the 200,000, 11,900 or 8,000 associated with Lockheed Martin, Dassault and Saab respectively.

Consisting of a range of talented personnel including full-time aerospace industry grey-beards, 40 to 60 year-old mid-career personnel, recent graduate school or undergraduate physicists and engineers as well as aerospace-defense industry grandfathers consulted on a program-by-program basis, Stavatti has established a system whereby senior staff is grouped with physically youthful talent to ensure that the next generation will benefit from a breadth of talent accumulated over the past eighty years. A cubicle-free environment, the Stavatti atmosphere employs the wide-open engineering and drafting departments of by-gone eras integrating specific engineering/development groups, such as landing gear or aerostructures into integrated pod-groups. In so doing, an "elementary school" styled group pod arrangement is employed rather than a concentrated cubicle or individual office environment.

As an organization, Stavatti Corporate Management, from Executive Management through Program Management, is consistent and integrated. Generally speaking, there is no conflict or animosity between "Corporate", divisions or program teams, largely due to the fact that the Stavatti organization is a family type environment in which corporate leadership plays an active role not only on the strategic management level, but on the divisional and program team levels. Leadership is apparent at all levels of the business organization and that leadership is largely demonstrated by a single individual or set of individuals.

Emphasizing the importance of a lean, focused enterprise the Stavatti Approach borrows heavily from the best practices which resulted in aircraft including the P-51, F-80, F-4, F-5, F-16 and F-117 organizing an extremely limited number of expert generalists around a single program manager who has complete control of both new aircraft projects and the corporation. In so doing, prototype and development programs are reminiscent of the North American P-51 Mustang and Lockheed P-80 Shooting Star development programs which were completed, start to finish, in 117 days and 180 days respectively. Employing a commercial, lean aerospace, flexible manufacturing approach, Stavatti anticipates a greater learning curve and cost savings than that associated with the highly successful F-117 program.

Performing all business within well defined operating principles, Stavatti management, engineering and production occurs under one roof at a single, concurrent location whenever possible. Conducting no more than two new prototype programs per sector enterprise simultaneously, Stavatti remains focused upon its core competency-fixed wing aircraft and aerospace vehicle design and production-at all times. Employing a very concentrated group of well compensated aerospace machinists and production persons, Stavatti places quality control responsibility in the hands of the individual employee. Limiting both bureaucracy, overhead and waste, Stavatti is the lean, high technology enterprise which employs the next generation business practices to revitalize aerospace defense.

While a detailed discussion of the Stavatti business model is beyond the scope of this webpage, a complete dissertation is provided in the Stavatti monograph SD-87432-M: THE STAVATTI APPROACH TO AIRCRAFT DEVELOPMENT, PRODUCTION & SUPPORT.



COMPANY SOLUTIONSCONTACT

Stavatti Aerospace Ltd is an aircraft manufacturer focused on the design and production of military, commercial and general aviation aircraft. Stavatti was formed with a vision to change the way aircraft are designed and built in order to improve efficiency, quality, safety and performance while reducing the cost of ownership and operation



- About Stavatti
- Leadership
- A Brief History
- Stavatti Approach**
- Industry Team
- Organization
- Careers
- Centers

- Military Aerospace
- General Aviation
- Commercial Aerospace
- Unpiloted Aerospace
- Missile Systems
- Advanced Technology
- Simulation

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